

CHAPTER 3

New Construction

Construction of new homes that contribute to a diverse housing mix is often where a municipality has the most flexibility in terms of how it achieves its goals. Through zoning, design guidelines, financial assistance, or other means, a community can work independently or in partnership with another entity to build the most suitable kinds of homes. This chapter will examine different tools and resources at a municipality's disposal, as well as highlight other communities that have used these means effectively.



New construction is often where a municipality has the most leverage in a development deal. Offering density bonuses, discounted land, or other incentives can result in new homes that meet community goals.



Photo: Rich Whitehead

WHAT TO GAIN FROM THIS CHAPTER

1. Understand that communities have a variety of tools they can use to pursue their new construction goals:
 - Zoning and entitlements;
 - Density bonuses;
 - Aesthetics and amenities;
 - “Green” technology and energy-efficiency; and
 - Parking.
2. Learn about financing and operating affordable housing developments.
3. Get a snapshot of the most commonly used affordable housing programs.

Municipal Leverage in New Construction

A developer knows before anything can be built, there must be a market for the development (as explained in detail in Chapter 1), and it must be zoned or rezoned for the proposed use. Although the developer's expertise and financial resources are crucial to bringing a new building from concept to reality, municipalities have a great deal of control and leverage. This section describes some of the ways a municipality can achieve its goals.

IMPORTANT TIP

Housing Commissions Provide Insight and Leadership

A municipality's housing commission (or committee) provides frontline leadership on and attention to housing issues. A housing commission can:

- *Refine the housing element of a comprehensive plan.*
- *Implement the action steps of the plan.*
- *Guide a community's housing investments.*

Typically made up of a cross-section of local volunteer experts and advocates, a focused housing commission keeps the community responsive to local, regional and national trends.

Photo: Scott Goldstein



Photo: Heather Glenson



Municipal leverage is greatest with new construction. Policies such as St. Charles' inclusionary zoning ordinance channel market forces toward community goals with minimal financial outlay from the municipality.

Zoning and Entitlements

Most municipalities carefully review a development's consistency with housing plans before reviewing the particulars of building height, set-backs, floor area ratios, parking, traffic, and infrastructure.

Communities have many tools at their disposal to influence the type and size of developments and ensure they include mixed-income or affordable housing. For example, zoning overlay districts can be used to encourage certain types of development in specific locations. Broader inclusionary zoning ordinances can be used to require that new development of market-rate homes within a community be matched by construction of a set amount of affordable homes, or payment into some sort of trust in lieu of actual construction. Overlay districts and inclusionary zoning are proactive measures that are not necessarily related to a specific development proposal.

The rezoning (if needed) and entitlement process, the end result of which is a legally binding definition of exactly what a developer is allowed to build at a given location, can be complex and expensive. The more a proposed use varies from what is permitted as-of-right, the longer the process is likely to take and the more conditions the municipality may place on the development. Many municipalities treat developments over a certain size as planned unit developments (PUD), to give them more control over what is actually constructed. Sometimes a municipality will offer a density bonus to a developer, allowing more market-rate units to be built in exchange for the inclusion of some affordable homes.

CHICAGO'S AFFORDABLE REQUIREMENTS ORDINANCE AND PLANNED UNIT DEVELOPMENTS

The City of Chicago adopted an Affordable Requirements Ordinance (ARO) in 2003, which set minimum requirements for affordable housing in residential developments that receive financial assistance or discounted land from the city. This ordinance ensures that in designated residential developments, 10 percent of the homes are affordable to tenants with incomes at or below 60 percent of AMI (\$45,240 for a family of four in 2008). It also allows for developers to fulfill the code by paying a \$100,000 in-lieu-of fee per each required affordable home. The ARO was amended in 2007 to include non-discounted city land, any zoning changes that increase the density of a project, and PUDs.

There are locations within most communities where a PUD is best for both the municipality and developer. These include situations where public benefits can be gained through amending fixed requirements of the zoning ordinance, as in the case of infill sites, transit-oriented development locations, downtowns, brownfields, obsolete industrial and commercial buildings, and adaptive or historic reuse. Public amenities such as parks, plazas, community centers, road improvements, and public parking can be incorporated as part of the PUD negotiations, with costs borne in whole or part by the developer. The inclusion of affordable housing is also becoming an accepted element in the PUD entitlement process, as a way to meet local and state housing goals.

CASE STUDY

Developing a healthy mix

As stressed throughout this book, affordable housing does not always require subsidies, and creativity can play a key role.

HomeTown Aurora, developed by Bigelow Homes, is a 1,288-unit development with prices ranging from \$150,000 to \$300,000. Approximately half of the homes are priced affordably for families earning below 80 percent AMI (\$60,300 for a family of four in 2008). The developer did not receive subsidies for this project, but was able to create affordability through a variety of housing types and sizes (50% two bedroom, 40% three bedroom, and 10% four bedroom)

and compact, energy-efficient design, namely narrow streets and smaller lots. The smaller than usual suburban lots are offset by 273 acres of open space. Because HomeTown Aurora did not fit neatly into traditional zoning codes, the entitlement process took much longer than it would have for a more conventional subdivision. Early concerns over density and too many school children were never realized; HomeTown Aurora actually generates a \$1.2 million surplus for the local school districts.



HomeTown Aurora, Aurora, Ill.

The tools discussed in this chapter are useful whether affordability is the goal or not. Several south suburban municipalities are actively trying to encourage different housing types and price points than currently exist, which often means building homes with higher values than elsewhere in the community.

Park Forest, for example, facilitated the development of small lot, single-family detached homes in its downtown in an attempt to diversify the housing stock and bring more activity to that area. Park Forest engaged Bigelow Homes, which is selling two and three-bedroom homes in the neo-traditional Legacy



Legacy Square, Park Forest, Ill.

Square development for \$175,000 to \$200,000. These prices are higher than those for many older homes and co-ops in the village.

In Blue Island, a new riverfront community called Fay's Point will include for-sale townhouses and condominiums, affordable senior apartments, and boat slips — housing types and amenities not currently found in the city. Designed in the New Urbanist style, the property is located where the Cal-Sag Channel and Little Calumet River split. The townhouses range in price from the high \$200,000s to the low \$500,000s, while the one, two and three-bedroom condominiums are selling for \$190,000 to \$363,000. These prices are considerably higher than the prices for existing single-family homes in Blue Island. The development is located in the city's enterprise zone, and the senior apartments will be financed with federal Low Income Housing Tax Credits.

Fay's Point, Blue Island, Ill.



Photo: Josh Hawkins

Density

Density invokes strong feelings in many communities. Opponents of mid and high-rise buildings or smaller lot single-family developments often associate density with inferior or ugly buildings, congestion, strangers, and lower property values. This has more to do with site planning, building design, street layout, landscaping, and use of open space than it does with the actual number of dwelling units per acre.

In fact, density often results in more open space and less traffic and parking congestion, particularly in areas close to transit, shopping, entertainment, and employment, such as suburban downtowns, neighborhood business districts, and major employment centers. Congestion declines as more people leave their cars at home and walk or ride transit to reach these destinations. Properly designed, a taller but less bulky building can provide more open space than a shorter one with the same total number of homes on the same site.

While most people are in favor of providing affordable homes, many do not recognize the relationship between the number of homes per acre and price of a finished house, condominium, or apartment. Land prices typically reflect current zoning or anticipated zoning changes. Entitled land typically accounts for up to 20 percent of the cost of a finished home. In areas where land prices are high, either housing prices or the number of allowable homes must increase to maintain the viability of the development.

Photos: Lincoln Institute of Land Policy



Density has many benefits, and many different configurations. The 'big house' design (bottom) fits into a single-family neighborhood, but actually contains several apartments. This Chicago neighborhood (top), featured in the Lincoln Institute of Land Policy photo-essay *Visualizing Density*, has a mix of housing types and range of prices, reflecting a diverse market.

IMPORTANT TIP**Zoning Can Produce a Diverse Housing Stock**

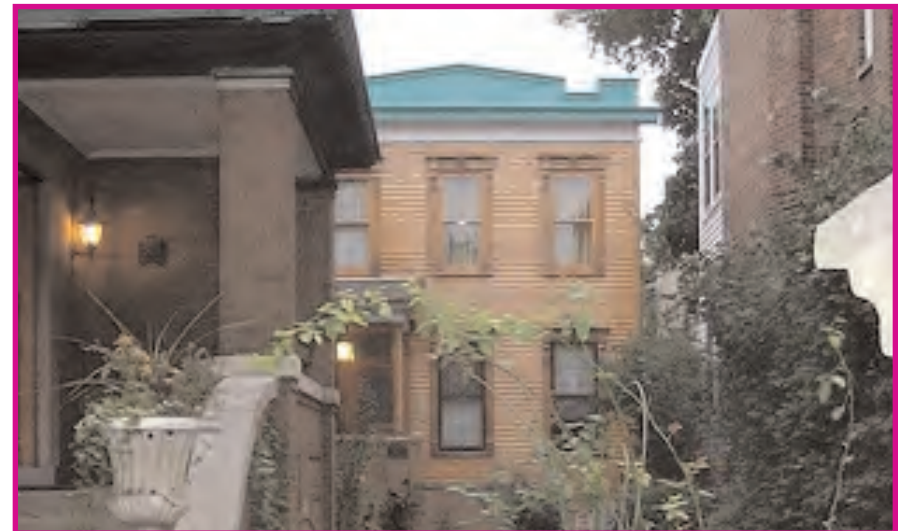
Municipalities, through their zoning authority, have a variety of means to expand their range of housing options. Many of the options below do not require municipal funds, but instead can spur the private market to build a wider range of housing types at a wider range of price points.

- *Allowing accessory dwelling units, such as coach houses or “granny flats” above garages, in a single-family zoned area.*
- *Improving or expanding the locations and allowance for multifamily residential zoning districts.*
- *Allowing for mixed residential and commercial uses in downtowns, commercial centers, and commercial corridors, with housing interspersed among or above commercial uses.*
- *Allowing flexible zoning for requirements in lot size, floor area ratio, parking, or setbacks, which can help developers build more affordable units while reducing the need for additional subsidies.*
- *Changing use designation. If a community has more land zoned for industrial, corporate or retail use than the market demands, such land can be rezoned to include residential options.*

Photo: Josh Hawkins



Highland Park gives density bonuses to developers who build affordable units.



Accessory dwelling units, such as this Chicago coach house, can increase residential density and provide a greater range of housing choices.

As part of a neighborhood planning process on the west side of Evanston, residents were asked about the type of new housing they wanted to see in their neighborhood. Many residents wanted lower density development at “affordable” prices. However, an analysis of density and property value in the neighborhood show that potential sales prices would decrease as density increased. For example, if only 10 units per acre were permitted, the potential price of a new single-family house would have been roughly \$750,000. At 20 units per acre, townhouses or duplexes would have cost roughly \$375,000. For a multi-story condominium building at 30 units per acre, the sales price would have been approximately \$250,000. In this example, the real estate market was not able to support \$750,000 single-family homes. However, townhouses in the \$375,000 range and condominiums in the \$250,000 range were marketable.

Municipalities can create opportunities for both higher-end and affordable homes by amending zoning codes to allow more units per acre, allowing a mix of uses on the same property so that downtown retail might have rental homes or condominiums above, or by creating special districts with greater density potential. As mentioned above, developers often will need to build more homes on a given site in order to turn a profit, particularly if the municipality requests that some affordable homes be built as well. A density bonus allows the developer to build additional market-rate options, enabling both parties to get what they are looking for in the deal.

THE RELATIONSHIP BETWEEN HOUSING DENSITY AND PRICE: SAMPLE EVANSTON NEIGHBORHOOD



source: Valerie Ketchmer Associates, Inc.

IMPORTANT TIP

Learn More about Density Myths

*The Urban Land Institute's 2005 publication, **Higher Density Development: Myth and Fact**, is a concise critique of several commonly held beliefs about density, including the misconceptions that higher-density housing overburdens schools, lowers property values, or creates congestion. It is available for download at www.uli.org.*

Aesthetics and Amenities

As stressed in the Metropolitan Mayors Caucus' Housing Endorsement Criteria, good design is not just for market-rate housing. When newly constructed affordable apartments, condominiums, townhouses, and single-family homes are well designed and integrated into their neighborhoods, they are indistinguishable from market-rate housing. Whether creating market-rate, mixed-income, or affordable developments, municipalities can establish design standards or update building codes to require desired construction features. At the time of public approval, municipalities can work with a developer to ensure the development is both attractive and economically viable.

In addition to aesthetic considerations, amenities in many affordable properties are comparable to or even better than those in market-rate housing, as a result of municipal and financing requirements, as well as the need to provide a high level of amenities to attract, keep and support residents. These include swimming pools, playgrounds, pre-wired Internet connections, and in-unit or free use of washers and dryers.

Photo: Cecilia Case



Internal amenities, such as washer/dryers, energy efficient lighting, and skylights, as well as external amenities, such as a running track or pool, can improve quality of life, lower long-term costs to the residents, and make the property more competitive on the open market.

Incorporating Green Building and Energy-Efficient Design Principles

“Green” building construction uses less energy and fewer natural resources, and has a reduced impact on the environment. Green building principles include sustainability, energy efficiency, recycling, water efficiency, indoor air quality, and waste reduction. Upfront investments in green technology in new construction can lower operating costs, as well as reduce risk of mold and allergens and related illnesses. Savings are found in utility expenses and the long-term durability of building materials.

One criticism of green building techniques and energy-efficiency retrofits is the expense, which could increase the cost of the resulting homes. However, there are a few things worth remembering about these techniques:

- As the market for green materials grows and becomes more competitive, prices will fall, lending themselves to housing affordability.
- Green principles are increasingly a selling point, particularly for young professionals and empty nesters, and can be an asset to any development in a highly competitive marketplace.
- Energy efficiency, over the life of the building, may result in lower monthly utility costs for residents, particularly renters. The initial investment might be larger, but over the long run, the cost savings will far surpass the investment.

The Chicago Community Loan Fund (CCLF) is a nonprofit organization that provides financing for neighborhood redevelopment and affordable housing developments. CCLF provides technical assistance on how to create energy-efficient and environmentally friendly affordable housing. Other institutions such as Shore Bank and the Clean Energy Foundation also support these priorities, and the State of Illinois has several weatherization and energy-efficiency retrofit programs.

GREEN HOMES FOR LESS GREEN

Church Street Village in Evanston, a townhouse development targeting workforce housing for middle-income buyers, is the first in that city to use a geo-thermal heating and cooling system (as well as recycled blue jeans for insulation). Energy costs are projected to be significantly lower than gas or electric heating and cooling systems. Another nearby building converting from industrial to residential will use the same system.

Photo: Josh Ellis



Photos: Courtesy of Preservation Compact Partners



Green building principles and materials can lower long-term housing costs through energy-efficiency enhancements.

Parking

Many municipalities require two parking spaces per unit, regardless of the type of development or its location. Transit-oriented, infill and mixed-use developments are often within walking distance of transit stations, bus lines, and shopping, and do not generate the same number of automobile trips as similar buildings in locations that are further away from these community amenities and services. The experience of most affordable buildings is that few residents have more than one car; in affordable senior buildings, car ownership is far less than one per household.

Increasingly, communities have recognized they need more flexible parking standards because the number of required parking spaces often drives up the cost and overall size of buildings, and affects the quality of the development's design. In mixed-use buildings, particularly ones with ground-floor retail and upper-floor residential, zoning that requires the same retail parking ratio as in stand-alone retail buildings or shopping centers can ruin an otherwise marketable development. Municipalities should evaluate their parking requirements to see if there is room for flexibility to support a variety of housing types to meet different needs.

Photo: Valerie Kratchmer



Good parking (above) vs. bad parking (below)

Photo: Josh Ellis



Financing and Operating Affordable Developments

The challenge for any developer building or preserving affordable and mixed-income housing is how to fill the financing gap created by the economics of the transaction. The market value or sales price of an affordable housing development is less – in some cases substantially less – than the development’s costs. New construction costs about the same for market-rate or affordable housing, but the revenue produced by the latter is far less.

Municipalities can lower developments costs through zoning, land donation, or other means, but financing is still a determinant of long-term affordability. Affordable housing developers must use multiple programs and tools to reduce financing costs, purchase prices, rents, and operating expenses.

Programs that help to reduce the financial gap work in a number of different ways. Some developments use federal and state programs, while

others use a mix of local financing, regulatory and zoning techniques. The most common tools are described below.

Reduce Financing Costs to the Developer:

- Lower the cost of funds to a developer.
- Raise equity for the development, thereby resulting in less debt.
- Provide direct grants for new construction or rehabilitation to lower the amount of debt.
- Enhance affordability by lowering or eliminating the cost of land.
- Make loans or grants to offset extraordinary costs of development.

Examples include Low-Income Housing Tax Credits, tax increment financing (TIF), community land trusts, land donations or write-downs, direct subsidies to the developer to write-down the development, and HOME and Community Development Block Grant funds.

Lower Operating Expenses:

- Reduce tax assessments and real estate taxes for multifamily rental housing.
- Offer incentives for using green building techniques.

Make Direct Payments to Residents:

- Directly subsidize rents to qualifying tenants.
- Make loans or grants to assist with direct housing payments, including downpayment assistance and help with monthly expenses.

Examples include Housing Choice Vouchers, Regional Housing Initiative (see sidebar), Chicago Rental Subsidy program, downpayment assistance, and no-interest loans.

REGIONAL HOUSING INITIATIVE

The Regional Housing Initiative (RHI) turns local housing authorities’ unused Housing Choice Vouchers into operating subsidies for apartment buildings near jobs and transit. RHI pools vouchers from the Chicago, Joliet, Cook, McHenry, and Lake County housing authorities as financing incentives to developers whose proposals comply with the Housing Endorsement Criteria of the Metropolitan Mayors Caucus to create diverse communities in the sponsoring counties.

For more information, contact Robin Snyderman, Vice President of Community Development, Metropolitan Planning Council, at 312-863-6007 or rsnyderman@metroplanning.org.

Require Affordable Housing:

- Provide mandatory or voluntary on-site affordable housing in an otherwise market-rate development, or require contributions to an affordable housing fund. These requirements are coupled with cost-saving incentives such as density bonuses and fee waivers.

Examples include inclusionary zoning and fees-in-lieu.

Reduce Development Costs:

- Allow zoning variances or changes.
- Lower permit and impact fees for affordable housing.
- Donate or sell land at a below-market price.
- Contribute community funds.
- Offer density bonuses, which do not reduce cost, but do increase profitability.

Examples include affordable housing funds, lower parking ratios, smaller lots, cluster zoning, and more variety in housing types.

LAKE FOREST'S INCLUSIONARY ZONING ORDINANCE

In 2005, Lake Forest – an affluent community in Chicago's north suburbs – adopted an Affordable Housing Plan delineating a comprehensive strategy to integrate affordable homes into the city's housing stock. Chief among the plan's measures was the implementation of an Inclusionary Zoning (IZ) ordinance, which requires 15 percent of homes in new residential developments and conversion projects be affordable to residents with an income at or below 80 percent of AMI (\$60,300 for a family of four in 2008).

The IZ ordinance was designed to provide affordable opportunities among market-rate homes to make the community more livable for the city's broader population and workforce, particularly seniors and working families. Lake Forest made provisions for developers

to offset the cost of compliance with the ordinance, including inspection fee waivers and a density bonus incentive. The city convened a task force in early 2007 to begin planning for the first development subject to the IZ ordinance – a new mixed-income community on the former Barat College campus.



Photo: Josh Hawkins

The main building on Lake Forest's Barat College campus will be adaptively rehabilitated as the centerpiece of a larger development that will include a significant number of affordable homes, per the community's innovative inclusionary zoning policy.

Understanding Housing Programs

There are many programs and tools available to municipalities, property owners, and developers to build and preserve affordable housing. Many are misunderstood. Names such as “Section 8” and “Low Income Housing Tax Credit” often cause confusion among residents and municipal representatives. There also are misconceptions about the programs, and the people living in the homes. Once municipalities identify their goals, these programs are essential tools to advance local strategies.

The following list briefly describes the more commonly used programs and tools. Additional information is available in the Appendix.

Federal Programs

The U.S. Department of Housing and Urban Development (HUD) administers several programs that generally provide lower cost financing or grants to developers to build affordable apartments, or directly subsidize the rent paid by tenants.

HUD’s Section 8 program pays subsidies directly to landlords; eligible tenants pay 30 percent of their adjusted income in rent, with the federal government paying the landlord the difference. The program includes **Housing Choice Vouchers**, which are given to low-income tenants to use anywhere a landlord will accept them, as well as **project-based subsidies** that stay with the building to ensure long-term affordability of individual units.

Section 202 provides direct loans to nonprofit organizations to develop or rehabilitate buildings that serve very low-income, elderly and disabled persons. A similar program, **Section 811**, assists developers of buildings that serve only persons with disabilities.

Community Development Block Grants can be used to fund a variety of programs, as long as 70 percent of funds aid low and moderate-income

people. Municipal officials have a lot of flexibility in how these funds are used, making them a valuable resource for addressing a range of concerns.

HOME funds can be used for rental housing production, rehabilitation loans and grants, first-time homebuyer assistance, rehabilitation loans for homeowners, and tenant-based rental assistance. All housing developed with HOME funds must serve income-eligible households. Fifteen percent of a state or local jurisdiction’s HOME funds must be set aside for use by community-based nonprofit organizations.

HOPE VI operates on the premise that all government-assisted homes should be integrated with the urban fabric – i.e., close to transit and schools, connected to the street grid – rather than isolated. By moving away from strictly affordable apartment buildings, and toward mixed-income developments that include row houses, duplexes, and small single-family homes, families receiving government assistance are no longer marginalized. Much of the HOPE VI program does not even include physical construction of subsidized home. By using more Housing Choice Vouchers, which give families and individuals more choice in where to live, the HOPE VI program helps people integrate into existing neighborhoods.

HUD’s **Supportive Housing Program** is designed to help states, municipalities, public housing authorities, and nonprofits develop quality homes for homeless individuals and families. In addition to building new homes, the Supportive Housing Program is intended to help the homeless achieve residential stability, increase their skill levels and incomes, and have more influence over decisions that affect their lives.

State Programs

The Illinois Housing Development Authority is the primary source of funding for affordable housing in the state. In addition to the Low-Income Housing Tax Credit program, IHDA helps municipalities use bonds to create home-ownership programs, administers a rental housing support program, and provides public education on home repair, home financing, and other housing-related topics.

The **Low-Income Housing Tax Credit** (LIHTC) is the most commonly used program for developing and rehabilitating high-quality, affordable rental housing. LIHTC properties must remain affordable for a minimum of 15 years. In Illinois, IHDA and the City of Chicago allocate LIHTCs to developers as a source of equity, usually about 50 percent of the development's total financing. Without these tax credits, real estate economics often cannot support developments that are affordable to households earning less than 60 percent AMI (\$45,240 for a family of four in 2008). LIHTCs have been used to support the affordable rental component of mixed-income, mixed-ownership (for-sale and rental), and mixed-use developments.

Residents of LIHTC buildings pay a fixed rent to the landlord, rather than 30 percent of their incomes, as with Housing Choice Vouchers or in buildings receiving project-based Section 8. As a result, LIHTC properties attract residents with somewhat higher incomes.

The LIHTC program has been very successful. However, without additional subsidies, such as Housing Choice Vouchers or state and local programs, rents can sometimes be too high for extremely low-income households. Developers frequently use other IHDA programs in conjunction with LIHTCs to provide layers of financing to make these affordable developments financially viable. These include the Illinois Affordable Housing Tax Credit and Illinois Housing Trust Fund.

The **Illinois Affordable Housing Tax Credit**, known as the state donation tax credit, provides a \$.50-on-the-dollar tax credit to individuals or organizations that donate to participating nonprofit housing developers. A donation can be made in the form of cash, securities, property, and real estate, in an aggregated amount that must be at least \$10,000. Along with the federal deduction allowed for charitable donations, a \$10,000 contribution would likely cost the donor \$3,250 once the credit is taken. Tax-exempt organizations also can benefit from this donation because the credit is transferable, meaning they can sell the credits on the private market. While this will not equate to the full 50-cent value, the organization will still be able benefit from the sale.

The **Illinois Affordable Housing Trust Fund** supports the development of housing for very low and low-income households, and can be used to fund acquisition and rehabilitation of existing housing, new construction, adaptive reuse of non-residential buildings, housing for special-needs populations, and more. The Trust Fund makes loans available below the prevailing commercial rate.

County Incentives

Tax abatement or reductions in the assessed value of rental property, such as through Cook County's Class 9 designation, result in lower operating expenses for the landlord. Class 9 is available for new or recently rehabilitated rental buildings that include affordable apartments. It reduces the assessment ratio for owners of affordable rental buildings, which can result in up to a 50 percent reduction in an owner's total property tax bill for 10 years and can be renewed for longer periods. In 1988, the Cook County Assessor's Office developed the **Class 9 Incentive program** to promote the rehabilitation of multifamily apartments in designated low to moderate-income areas of Cook County. Over the years, this proved to be a considerable incentive to maintain affordable rental apartments, as the 50 percent reduction in property tax costs helped to cut overall operating expenses by 12 percent. Cook County Assessor James Houlihan said of the initiative: "Property taxes are one of the single-most expensive operating costs for building owners ... [The] reduction in assessment level will make rental development and operations more viable for these building owners throughout the county."

RENT AND INCOME LEVELS FOR HOUSING PROGRAMS

Programs and tools to increase and preserve the supply of affordable housing often are targeted to households at specified income levels, usually referred to as percent of Area Median Income (AMI). Eligible renters or buyers need to fall within the income limits specific to a program, but must earn enough to afford the rents or monthly payments on an apartment or house. This is usually based on 30 percent of the households income. HUD sets income limits each year.

Most affordable rental programs serve a very wide range of incomes. Homeownership programs typically target households with incomes at 80-120 percent AMI, generally considered to be moderate income.

For current income limits, go to www.ihda.org.

Municipal Programs and Incentives

Tax increment financing, linkage fees, demolition taxes, and lower permit and impact fees are among the many useful municipal tools available to promote new and maintain existing affordable buildings. Most of them provide upfront funds to reduce development and rehabilitation costs.

Tax-exempt bonds can be issued by a municipality or IHDA. They are used to provide financing at rates that are less expensive than conventional loans, and they can also generate equity for the development.

Local housing trust funds are distinct funds established by legislation, ordinance, or resolution to receive public revenues, that only can be spent on affordable housing. Fund sources can include developers, corporations, grants, municipal fees, and federal and state housing dollars. Administered by the local agency or department that handles federal housing programs, a housing trust fund generates a consistent stream of dollars that can be used in a variety of ways to achieve affordable housing needs. In addition, trust funds can effectively harness and leverage additional resources for affordable housing initiatives.

Tax increment financing (TIF) is one of the most frequently used tools to spur community reinvestment in both city neighborhoods and older suburbs. Municipalities can issue TIF bonds that provide funds for capital improvements in the district. As tax collections increase due to new investment in the area, the bonds are retired. Allowable housing activities include land acquisition, land cost write down, demolition of existing structures, infrastructure improvements, and environmental clean-up. TIF can be particularly useful in infill locations. The various uses of TIF monies in housing developments effectively lower development

costs, and, in so doing, lower housing costs. The use of TIF also signals substantial and concerted interest on the part of the municipality, which can have lasting effects in the mind of a developer.

The City of Chicago offers the **Neighborhood Improvement Fund** as an option within designated TIF districts. The grant program is administered by the city's Dept. of Housing and offers grant assistance to low- and moderate-income residents who own multifamily homes to help them make needed improvements to their properties.

New Construction Development Tools in Action

The City of Chicago has a number of effective programs targeting moderate-income homeowners. Using its own allocation of Low Income Housing Tax Credits, the city supported Bonheur Development for Liberty Square, which comprises scattered sites in a six-block area on the west side of the city. These attractive buildings provide a mix of one to four-bedroom homes primarily for low and moderate-income households. Eight homes rent at market rates, while 11 have an additional rental subsidy through the city to serve the very lowest income households.

The New Homes for Chicago program is an affordable homeownership initiative administered by the city to create homeownership opportunities for local residents. Now in its 12th year, New Homes for Chicago has approved over 65 developments, with more than 1,600 new affordable single-family or two-flat homes throughout the city. The primary objective of New Homes for Chicago is to expand housing affordability in support of healthy communities, especially those traditionally bypassed for new development. Using financial incentives such as fee waivers, perimeter site improvements, and energy-efficiency upgrades to reduce development costs, the city encourages developers to construct high quality homes for purchase by moderate-income working individuals and families.

Highland Park created a community land trust in 2001 to reduce the cost of homeownership by separating the value of the land, which is quite high in the city, from the house itself. Properties are acquired by the land trust through direct purchase or donation, and the trust retains title to the land while selling the homes at below-market value. Senior citizens looking to downsize are encouraged to sell their homes to the land trust. The land is leased at a nominal cost to a qualified buyer (in this case, 115 percent of area median income, which was approximately

Photo: Valerie Krachmer



New houses can transform a community. These single-family homes at 63rd Street and Woodlawn Avenue reflect the City of Chicago's commitment to reinvesting in neighborhoods through high-quality infill development.

\$90,000 for a family of four in 2008), though priority is given to those earning under 80 percent AMI (\$60,300 for a family of four). Future affordability is maintained through a ground lease that stipulates these homes be sold to another income-qualified buyer. A formula determines the fair return on the investment for the homeowner. Since Highland Park created the land trust, it has completed 12 homes.

What's Next?

New construction is often an exciting opportunity to pursue community goals. However, depending on your community's goals and situation, you may need to do some or all of the following:

- Review your zoning ordinance and other codes to make sure there are no unnecessary impediments to affordable housing or other community goals.
- Allow smaller lots, cluster zoning, or higher density to encourage better design, site planning, and use of open space, as well as a range of housing types.
- Educate public officials, boards and commissions about existing programs to encourage new construction of mixed-income and affordable housing. These include conducting an inventory of city-owned property to identify opportunities to discount it for new development; seeking out partners to maximize their experience, capacity and resources; and establishing a housing commission.

Be mindful, however, that your community's current homes are an opportunity as well. If a community is facing a challenge with existing homes, it often can be more cost-effective to preserve existing buildings than build new ones. As the next chapter details, there are other issues at stake with preservation. However, many of the tools, tactics and resources that have been described in Chapter 3 also may be applicable for preservation.